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INFO RUEHIL/AMEMBASSY ISLAMABAD 0907  
RUEHBUL/AMEMBASSY KABUL 0320  
RUEHLO/AMEMBASSY LONDON 0365  
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RUEHPW/AMCONSUL PESHAWAR 4660  
RUEAIIA/CIA WASHINGTON DC  
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RUEKJCS/SECDEF WASHINGTON DC  
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C O N F I D E N T I A L SECTION 01 OF 02 KARACHI 000387

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SUBJECT: KARACHI - NATIONAL AIRLINE FLOUNDERS AS PRIVATE CARRIERS  
PROFIT

Classified by: Acting Consul General Dawn M. Schrepel, Reasons 1.4  
(b)and (d)

11. (C) Summary: While Pakistan's national carrier, PIA, has been operating at a loss for years, Pakistan's private carriers are seeing profits increase and are cautiously preparing to expand - particularly into the Middle Eastern market. PIA executives blame reduced travel demand and unfair competition from international carriers for their losses; PIA's competitors however, blame government interference, including deliberate flight delays, up to 20 seats blocked on each flight for GoP officials, and free flights for officials and their friends and family. End summary.

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PROBLEMS AT PIA  
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12. (C) EconOff met November 12 and 13 with executives from Pakistan's national airline, Pakistan International Airlines (PIA), the two leading private carriers, Air Blue and Shaheen, and Pakistan's Civil Aviation Authority (CAA) to discuss Pakistan's aviation industry. PIA's Director of Corporate Planning, Shahnawaz Rehman told EconOff that PIA has operated at a loss "for some time," although he did not provide specifics on the extent or duration of the loss. Rehman blamed poor revenues, reduced travel demand due to the global economic crisis, and competition from international carriers such as Qatar Airways and Emirates for the shortfall. Rehman said that while Qatar Airways and Emirates receive backing from their respective governments, PIA was not supported by the Government of Pakistan (GoP), adding that while the GoP guaranteed PIA's loans, "we don't receive a cent from the government."

13. (C) On Rehman's last point, in separate meetings executives from Shaheen and Air Blue, which had each previously worked at PIA, disagreed strongly. "The GoP gives PIA approximately \$850 million annually in government-backed loans that it does not repay," said Arshad Jalil, Shaheen's Vice Chairman. Agreeing, Air Blue's Managing Director Syed Nasir Ali added that "PIA also collects the same government taxes from passengers as the other airlines, but is not required to remit these fees to the CAA, resulting in millions of dollars of additional government subsidies."

14. (C) Shaheen and Air Blue executives independently also described the challenges facing PIA, the majority of which they attributed to direct government interference. According to these executives, PIA regularly delays flights to wait for GoP officials that are running late. The airline is required to hold up to 20 seats on each flight for GoP officials that may or may not use them - resulting in empty

seats on nearly every flight. PIA also gives numerous free tickets to GoP officials and their friends, families, and contacts. In addition to this government interference, PIA is required to maintain certain unprofitable routes as a public service, causing greater losses across the board.

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PRIVATIZATION UNLIKELY  
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¶5. (C) PIA Corporate Planning Director Rehman said PIA was looking for ways to return to profitability, including enhancing business class and cost cutting, but he continued to point to external factors such as the economy and unfair international competition as the root causes of PIA's troubles. While Jalil and Ali said privatization was PIA's only viable path to profitability, all three men agreed this was not likely, with Jalil adding that the GoP "is never going to let go of PIA, profitable or not, they receive too many advantages to ever walk away."

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CLEARER SKIES FOR PRIVATE CARRIERS  
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¶6. (C) Both Shaheen and Air Blue cited innovation, on-time flights, and excellent customer service as the keys to their continued profitability. Air Blue Managing Director Syed Nasir Ali admitted that Air Blue had fashioned itself after the American carrier Jet Blue, introducing E-tickets and paperless offices to Pakistan and implementing strict cost controls. Shaheen's Vice Chairman Arshad Ali said Shaheen has taken similar steps and is positioning itself

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for growth with \$9 million recently invested in self-financed infrastructure projects such as a new wide-body hanger and an expanded office headquarters. While each acknowledged the challenges of reduced travel demand, they expressed optimism that the recent increase in profitability will be a continuing trend. On average the two airlines turn a profit when they are able to fill 75 percent of the seats on each flight - they are currently averaging 85-90 percent.

¶7. (C) Looking ahead, both airlines are targeting the Middle Eastern markets, particularly Dubai. International fares now account for between 65-70 percent of each carrier's profits, a percentage they see increasing. "Fifteen years ago we made 80 percent of our money domestically, now it's the reverse," Ali said, adding that "while domestic travelers don't always have to travel, the international laborers going to Dubai have no choice...the Middle East is built on Pakistani labor."

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CURRENT FLEET SIZE AND POTENTIAL ACQUISITIONS  
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¶8. (SBU) PIA's fleet of 40 aircraft includes six Boeing 737s, six Boeing 747s, nine Boeing 777s, twelve Airbus A310s, and seven ATR Turboprops. Rehman said that PIA has been in discussions with Boeing and Airbus over the purchase of some 30 additional aircraft, but is likely to reduce that number given the airline's current financial challenges.

¶9. (SBU) Shaheen, formed by the Pakistani Air Force in 1990 as a cargo carrier, was purchased in 2004 as a private airline by Khalid Sehbai. After operating for one year as a domestic passenger carrier, as required by civil aviation law, Shaheen now carries one million passenger annually to 16 domestic and international destinations. Shaheen owns a fleet of 11 Boeing 737-200s, with 1,200 employees -- 850 with the airline and 350 with their subsidiary aviation services firm which provides the military and government with lubricants and services. Shaheen is in the process of purchasing four new Boeing 737-900s. (Note: Shaheen expected deliver of aircraft in December 2010, but due to pre-payment delivery financing difficulties with Boeing, delivery is delayed until June 2011. End note.)

¶10. (SBU) Air Blue, launched in 2004, currently runs a fleet of seven leased Airbus aircraft -- A319s, A320s, and A321s -- to nine domestic and international destinations. In 2006 they agreed to purchase 14 Airbus A320s, but they have struggled to gather the needed financing and are likely to reduce the order to between seven and nine aircraft, with the first to be delivered in 2010. Ali offered the difficulty in operating wide-body aircraft as the reason Air Blue chose Airbus A320s over Boeing's 737 series.

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